

Commerce Commission  
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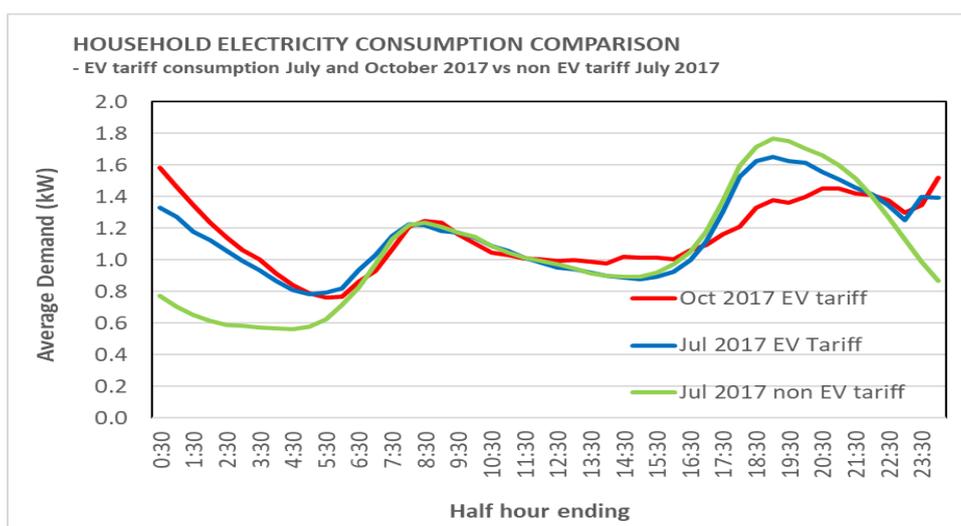
1 April 2019

### Vector – Accelerated depreciation application

Thank you for the opportunity to comment on Vector’s application for accelerated depreciation. We understand that the Commission is seeking preliminary views and there will be further opportunity to provide more detailed comments. We set out below our high level initial views for the Commission’s consideration.

Vector’s analysis indicates that there is potential for regressive outcomes for consumers as the outlook of declining costs for new technologies has the potential to strand network assets with the costs most likely to fall on the most vulnerable consumers. Mercury is concerned that without reform to the way distribution pricing is structured the potential for regressive consumer outcomes is very real. Numerous studies by both the Electricity Authority and recently as part of Electricity Price Review have quantified the potential consumer impact and Mercury supports these analyses.

Mercury’s view is that reforming distribution pricing to send better signals to consumers reduce peak usage on the distribution network and use existing network assets more efficiently needs to be the main priority. More efficient and cost reflective pricing is effectively a “no regrets” approach as it does not entail any further investments by distributors in order to manage or control distributed energy resources and allows consumers to make their own choices as to what technologies they want to adopt and how to use them while ensuring those who use more of the network capacity at peak times pay more. Mercury has published evidence of how its customer’s usage patterns have favourably shifted outside of peak network periods in response to reduced off-peak charges it offered to customers with electric vehicles<sup>1</sup>. In our view, consumers will respond to price signals if they are offered.



<sup>1</sup> Mercury “EV drivers enjoy incentive to charge off peak” available from [https://issuu.com/mercurynz/docs/media\\_release\\_ev\\_drivers\\_enjoy\\_ince](https://issuu.com/mercurynz/docs/media_release_ev_drivers_enjoy_ince)

Mercury considers it would be useful for the Commission to challenge the Vector analysis and assumptions behind its favoured Symphony scenario which it states “aligns with our ambition of being able to coordinate and manage the technology for active demand management.”. Mercury would like to see further evidence as to why this approach will result in greater consumer benefits over scenarios where more efficient pricing is instead pursued as well as more competitive access to the market for distributed network resources and services.

The Electricity Authority’s IPAG working group is currently examining the issue of access to networks and has raised concerns around long term competitive implications for distributed energy resources from the unfettered control of such resources Vector is advocating for in this proposal. We would encourage the Commission to consult with the IPAG and carefully consider the other scenarios for future proofing the network.

Finally, we have more general concerns around the concept of allowing accelerated depreciation with the current disclosure requirements. If assets will cease to be utilised before they reach the end of their service lives, this presents a risk which should be properly reflected in more stringent investment criteria and intensive scrutiny of Asset Management Plans.

We look forward to commenting in further detail at the next stage.

If you wish to discuss anything further please contact Rebekah McCrae on 09 308 8237 or 022 070 2126 or at [rebekah.mccrae@mercury.co.nz](mailto:rebekah.mccrae@mercury.co.nz).

Yours sincerely



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